

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
EB-08 FRB-03 INR-10 NSAE-00 SP-02 STR-07 TRSE-00
LAB-04 SIL-01 OMB-01 L-03 /071 W
-----002851 231959Z /50

R 231822Z FEB 78
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 5078
INFO ALL EC CAPITALS
USMISSION GENEVA
AMCONSUL MILAN
AMCONSUL TURIN

LIMITED OFFICIAL USE SECTION 01 OF 02 BRUSSELS 03521

USEEC

GENEVA ALSO FOR MTN; PARIS ALSO FOR OECD

E.O. 11652: N/A
TAGS: EEC, ETRD, EIND
SUBJECT: EC SYNTHETIC FIBER AGREEMENT WITH PRODUCERS

REF: 77 BRUSSELS 8339

1. ACCORDING TO COMMISSION SOURCES, EC INDUSTRIAL AFFAIRS COMMISSIONER ETIENNE DAVIGNON RECENTLY MET IN PARIS WITH 11 LEADING SYNTHETIC FIBER PRODUCERS AND PERSUADED THEM TO CUT CAPACITY OVER THE NEXT THREE YEARS. THE PROPOSED CUTS WOULD REDUCE COMMUNITY CAPACITY ABOUT 15 PERCENT BY 1981 FROM ITS PRESENT LEVEL OF 2.7 MILLION TONS A YEAR. THE COMMISSION ESTIMATES THAT WITHOUT THIS LIMITATION AGREEMENT' CAPACITY WOULD RISE TO MORE THAN 3.5 MILLION TONS BY 1179 BASED ON PREVIOUSLY ANNOUNCED INVESTMENT PLANS. TARGET LEVELS WILL BE GIVEN BY NATIONALITY BUT
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WITH ALL THE MAJOR FIRMS INVOLVED, COVERING ABOUT 90 PERCENT OF COMMUNITY PRODUCTION IN SYNTHETIC FIBERS, THE COMMISSION IS NOT WORRIED ABOUT THE SMALLER PRODUCERS.

2. SUBSIDIARIES OF MONSANTO AND DUPONT ARE, ACCORDING TO COMMISSION OFFICIALS, AMONG THE THIRTEEN COMPANIES THAT HAVE AGREED TO THE REDUCTIONS BUT THEY HAVE REFUSED FOR

ANTI-TRUST REASONS TO MEET WITH THE OTHER PRODUCERS OR COLLECTIVELY WITH THE COMMISSION. COMMISSION OFFICIALS PLAN TO MEET SOON WITH UNION OFFICIALS TO OBTAIN THEIR APPROVAL OF THE PLAN.

3. THE PRINCIPAL DIFFICULTY IN THE DISCUSSIONS CONCERNED CAPACITY LIMITS FOR ITALIAN INDUSTRY WHERE RECENT AND PLANNED INVESTMENTS THREATEN TO GREATLY AGGRAVATE THE CAPACITY GLUT. THE ITALIANS ARGUED THAT THEIR EC PARTNERS HAVE ALREADY HAD THE CHANCE TO INCREASE CAPACITY AND THAT THE NEW ITALIAN INSTALLATIONS WILL BE AMONG THE MOST MODERN IN THE COMMUNITY. AFTER A RECENT MEETING BETWEEN DAVIGNON AND DONAT-CATTIN A COMPROMISE WAS REACHED WHEREBY THE ITALIAN PRODUCERS WOULD AGREE TO A TEMPORARY CAPACITY CUT FROM 620,000 TONS LAST YEAR TO ABOUT 500,000 TONS BEFORE 1979. ITALY PLANS NEVERTHELESS TO RESTORE ITS CAPACITY TO OVER 600,000 TONS BY 1981.

4. AFTER EXPANDING RAPIDLY THROUGH THE LATE 1960'S, THE SYNTHETIC FIBER INDUSTRY HAS STAGNATED SINCE ABOUT 1973. THE MAIN REASONS FOR THE DECLINE HAVE BEEN INCREASING TEXTILE IMPORTS USURPING DOWNSTREAM MARKETS, OVERINVESTMENT, AND INCREASED RAW MATERIAL, ENERGY, AND LABOR COSTS. CAPACITY UTILIZATION HAS DROPPED TO AROUND 66 PERCENT. INDUSTRY LOSSES AMOUNTED TO ONE BILLION DOLLARS IN 1975, 600 MILLION DOLLARS IN 1976 AND AN ESTIMATED 500 MILLION LIMITED OFFICIAL USE

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DOLLARS IN 1977.

5. LAST YEAR THE COMMISSION FIRST ASKED GOVERNMENTS TO REFUSE TO GRANT ANY NEW NATIONAL AIDS TO THE INDUSTRY AND THEN ASKED PRODUCERS TO FREEZE CAPACITY AT SEPTEMBER 1977 LEVELS (REFTEL). DAVIGNON REPORTEDLY FELT THIS WAS NOT ENOUGH AND COMMISSION TEXTILE OFFICIALS SUSPECT THE REQUEST FOR A BAN HAS BEEN NEGLECTED, ESPECIALLY BY ITALY AND IRELAND. THE COMMISSION HAS NOT YET DECIDED WHETHER TO CONFRONT THE MEMBER STATES ON THIS SENSITIVE ISSUE. UNDER THE EEC TREATY ALL STATE AID SCHEMES SHOULD BE SUBMITTED IN ADVANCE TO THE COMMISSION FOR APPROVAL. THE COMMISSION CAN COMPEL GOVERNMENTS TO ABOLISH OR AMEND THOSE AIDS DEEMED INCOMPATIBLE WITH THE FUNCTIONING OF THE COMMON MARKET BUT TO DO SO IT MUST FIRST KNOW ABOUT THE SCHEMES AND NOT ALL GOVERNMENTS COOPERATE FULLY IN THIS REGARD.

6. TO OFFSET THE DECLINE IN STATE AID TO THE INDUSTRY THE COMMISSION WILL PROPOSE THAT A PORTION OF THE PROPOSED NEW COMMUNITY LOAN FUND KNOWN AS THE ORTOLI FACILITY BE EARMARKED FOR ASSISTING TECHNICAL IMPROVEMENTS PROJECTS

IN THE INDUSTRY. IN ADDITION THE SOCIAL FUND COULD BE
TAPPED FOR RETRAINING BENEFITS FOR SOME 15,000 WORKERS
EXPECTED TO BE DEPRIVED OF EMPLOYMENT BY THE AGREEMENT.
7. COMMISSION INDUSTRIAL POLICY OFFICIALS REFUSE TO REFER
TO THE NEW PLAN AS A "CRISIS CARTEL", WHICH HAS NO BASIS
IN THE EEC TREATY. THEY PREFER TO LABEL THE MEASURES
VOLUNTARY RESTRAINT BY PRODUCERS WHERE THE COMMISSION ON
BEHALF OF THE COMMUNITY ACTS AS COORDINATOR. COMMISSION
COMPETITION OFFICIALS SAY THAT THEY HAD SOME SERIOUS PROBLEMS
WITH THE PROPOSED ARRANGEMENT BUT ACQUIESCED ON

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GROUND THAT THE COMMISSION, NOT PRIVATE COMPANIES, WOULD
SET THE TARGET LEVELS AND THE AGREEMENT WOULD RUN FOR A
FINITE THREE-YEAR TERM. HINTON

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